

CITY OF STANTON

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2014

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City of Stanton

Officials

<u>Name</u>	<u>Title</u> (Before January 2014)	<u>Term Expires</u>
Kirk Requist	Mayor	January 2016
Harold Clark	Council Member	January 2014
Duane Dinville	Council Member	January 2014
Tysen Sederburg	Council Member	January 2014
Ray Guffey	Council Member	January 2016
Kelvin Wenberg	Council Member	January 2016
Marilyn Rubel	City Clerk	Indefinite
Thomas Stamets	Attorney	Indefinite

<u>Name</u>	<u>Title</u> (After January 2014)	<u>Term Expires</u>
Kirk Requist	Mayor	January 2016
Ray Guffey	Council Member	January 2016
Kelvin Wenberg	Council Member	January 2016
Dan Allen	Council Member	January 2018
Harold Clark	Council Member	January 2018
Dan Shehan	Council Member	January 2018
Marilyn Rubel	City Clerk	Indefinite
Thomas Stamets	Attorney	Indefinite

City of Stanton



Diane McGrain, CPA
Jim Menard, CPA

September 19, 2014

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stanton, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Continued....

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stanton as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Stanton's basic financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic

Continued...

financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 7 and 28 through 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2014 on our consideration of the City of Stanton's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Stanton's internal control over financial reporting and compliance.

Schroeder & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Stanton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased approximately \$2,933,000 from fiscal year 2013 to fiscal year 2014. Capital grants increased approximately \$2,579,000 and loan proceeds increased approximately \$360,000.
- Disbursements of City's governmental activities increased approximately \$2,892,000 from fiscal year 2013 to fiscal year 2014. Capital projects increased approximately \$2,794,000.
- The City's total cash basis net position decreased approximately \$46,000, from June 30, 2013 to June 30, 2014. Of this amount, the assets of the governmental activities decreased approximately \$145,000, and the assets of the business type activities increased by approximately \$99,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, electric system and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, and 3) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the electric, water, sewer, landfill and deposit funds.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash basis net position for governmental activities decreased from \$241,856 to \$96,605. The analysis that follows focuses on the cash basis net position for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30, 2014	Year Ended June 30, 2013
Receipts:		
Program receipts:		
Charges for service	\$ 8	\$ 12
Operating grants, contributions and restricted interest	115	113
Capital grants, contributions and restricted interest	2,611	32
General receipts:		
Property tax	156	151
Local option sales tax	55	64
Grants and contributions not restricted to specific purposes	1	1
Loan proceeds	360	-
Total receipts	<u>3,306</u>	<u>373</u>
Disbursements:		
Public safety	42	46
Public works	192	172
Culture and recreation	87	38
Community and economic development	1	1
General government	65	32
Capital projects	<u>3,074</u>	<u>280</u>
Total disbursements	<u>3,461</u>	<u>569</u>
Change in cash basis net position before transfers	(155)	(196)
Transfers, net	<u>10</u>	<u>9</u>
Change in cash basis net position	(145)	(187)
Cash basis net position beginning of year	<u>242</u>	<u>429</u>
Cash basis net position end of year	<u>\$ 97</u>	<u>\$ 242</u>

The City's total receipts for governmental activities increased \$2,933,000. The significant increase in receipts was the result of capital grants for a multipurpose community facility.

The cost of all governmental activities this year was \$3,461,962. However, as shown in the Cash Basis Statement of Activities and Net Position the amount taxpayers ultimately financed for these activities was only \$727,792 because some of the cost was paid by those directly benefited from the programs (\$8,630), or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,725,540). The City paid the remaining "public benefit" portion of governmental activities with approximately \$156,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30, 2014	Year Ended June 30, 2013
Receipts:		
Program receipts:		
Charges for service		
Electric	\$ 679	\$ 658
Water	171	177
Sewer	92	95
Landfill	7	6
Deposits	4	6
General receipts		
Unrestricted interest on investments	1	2
Miscellaneous	8	3
Total receipts	<u>962</u>	<u>947</u>
Disbursements:		
Electric	613	551
Water	160	167
Sewer	71	91
Landfill	6	6
Deposits	3	3
Total disbursements	<u>853</u>	<u>818</u>
Change in cash basis net position before transfers	109	129
Transfers, net	<u>(10)</u>	<u>(9)</u>
Change in cash basis net position	99	120
Cash basis net position beginning of year	<u>983</u>	<u>863</u>
Cash basis net position end of year	<u>\$ 1,082</u>	<u>\$ 983</u>

Total business type activities receipts for the fiscal year were approximately \$962,000 compared to \$947,000 last year. The cash basis net position increased by approximately \$99,000 from the prior year. Total disbursements for the fiscal year were \$853,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Stanton completed the year, its governmental funds reported a combined cash basis fund balance of \$96,605, a decrease of \$145,251 from last year's total of \$241,856. The following are the major reasons for the changes in cash basis fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$37,760 from the prior year to \$102,492 due to the purchase of furnishings for the new library and the purchase of a blade and snow blower for snow removal.
- The Road Use Tax Fund cash balance increased by \$5,459 to \$74,342 during the fiscal year.
- The Local Option Sales Tax Fund decreased by \$9,136 to \$95,303 during the fiscal year.

- The Capital Projects Fund cash balance decreased \$24,015 to (\$192,084) due to construction costs of the Viking Community Center.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Electric Fund cash balance increased by \$56,275 to \$797,995, due to various expenses for the year were lower than expected.
- The Enterprise, Water Fund cash balance increased by \$16,702 to \$117,858.
- The Enterprise, Sewer Fund cash balance increased by \$25,846 to \$151,686.

BUDGETARY HIGHLIGHTS

The City's receipts were approximately \$334,000 less than the amended budget. This was due primarily to grant monies anticipated for June for the Viking Center capital project not received until July. Total disbursements were approximately \$134,000 less than budgeted due to bills for a Water project anticipated in June.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$848,000 in revenue notes compared to \$903,000 last year. During the year the City borrowed \$360,000, all outstanding at June 30, 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Stanton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities. Some of the major items addressed in the budget included a water project, the purchase of new first responder truck and a new pickup.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marilyn Rubel, City Clerk, P.O. Box 189, Stanton, Iowa.

Basic Financial Statements

City of Stanton
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2014

	Disbursements	Program Receipts			Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 42,217	2,260	3,900	-	(36,057)	-	(36,057)
Public works	192,407	4,235	68,799	-	(119,373)	-	(119,373)
Culture and recreation	87,731	1,950	32,625	-	(53,156)	-	(53,156)
Community and economic development	1,000	-	-	-	(1,000)	-	(1,000)
General government	64,786	185	9,372	-	(55,229)	-	(55,229)
Capital projects	3,073,821	-	-	2,610,844	(462,977)	-	(462,977)
Total governmental activities	3,461,962	8,630	114,696	2,610,844	(727,792)	-	(727,792)
Business type activities:							
Electric	613,166	679,401	-	-	-	66,235	66,235
Water	160,491	171,961	-	-	-	11,470	11,470
Sewer	70,616	92,519	-	-	-	21,903	21,903
Landfill	6,600	6,637	-	-	-	37	37
Deposits	2,520	3,500	-	-	-	980	980
Total business type activities	853,393	954,018	-	-	-	100,625	100,625
Total	\$ 4,315,355	962,648	114,696	2,610,844	(727,792)	100,625	(627,167)
General Receipts:							
Property tax levied for general purposes					156,057	-	156,057
Local option sales tax					55,761	-	55,761
Grants and contributions not restricted to specific purpose					390	-	390
Unrestricted interest on investments					60	1,271	1,331
Miscellaneous					-	8,217	8,217
Loan proceeds					360,000	-	360,000
Transfers					10,273	(10,273)	-
Total general receipts and transfers					582,541	(785)	581,756
Change in cash basis net position					(145,251)	99,840	(45,411)
Cash basis net position beginning of year					241,856	983,070	1,224,926
Cash basis net position end of year					\$ 96,605	1,082,910	1,179,515
Cash Basis Net Position							
Restricted:							
Expendable:							
Streets					\$ 74,342	-	74,342
Community betterment					95,303	-	95,303
Debt service					-	13,130	13,130
Other purposes					16,552	-	16,552
Unrestricted					(89,592)	1,069,780	980,188
Total cash basis net position					\$ 96,605	1,082,910	1,179,515

See notes to financial statements

City of Stanton
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2014

	General	Special Revenue Road Use Tax	Local Option Sales Tax	Capital Projects	Other Nonmajor Governmental Funds	Total
Receipts						
Property tax	\$ 124,953	-	-	-	27,883	152,836
Other city tax	3,221	-	55,761	-	-	58,982
Licenses and permits	217	-	-	-	-	217
Use of money and property	60	-	103	-	-	163
Intergovernmental	18,207	68,799	-	1,610,844	-	1,697,850
Charges for service	4,068	-	-	-	-	4,068
Miscellaneous	32,322	-	-	1,000,000	-	1,032,322
Total receipts	183,048	68,799	55,864	2,610,844	27,883	2,946,438
Disbursements						
Operating:						
Public safety	39,548	-	-	-	2,669	42,217
Public works	42,834	63,340	65,000	-	21,233	192,407
Culture and recreation	85,346	-	-	-	2,385	87,731
Community and economic development	1,000	-	-	-	-	1,000
General government	62,353	-	-	-	2,433	64,786
Capital projects	-	-	-	2,949,356	-	2,949,356
Business type activities	-	-	-	124,465	-	124,465
Total disbursements	231,081	63,340	65,000	3,073,821	28,720	3,461,962
Excess (deficiency) of receipts over (under) disbursements	(48,033)	5,459	(9,136)	(462,977)	(837)	(515,524)
Other financing sources (uses):						
Loan proceeds	-	-	-	360,000	-	360,000
Operating transfers in	10,273	-	-	78,962	-	89,235
Operating transfers out	-	-	-	-	(78,962)	(78,962)
	10,273	-	-	438,962	(78,962)	370,273
Net change in cash balances	(37,760)	5,459	(9,136)	(24,015)	(79,799)	(145,251)
Cash balances beginning of year	140,252	68,883	104,439	(168,069)	96,351	241,856
Cash balances end of year	\$ 102,492	74,342	95,303	(192,084)	16,552	96,605
Cash Basis Fund Balances						
Restricted for:						
Streets	\$ -	74,342	-	-	-	74,342
Community betterment	-	-	95,303	-	-	95,303
Other purposes	-	-	-	-	16,552	16,552
Unassigned	102,492	-	-	(192,084)	-	(89,592)
Total cash basis fund balances	\$ 102,492	74,342	95,303	(192,084)	16,552	96,605

See notes to financial statements

City of Stanton
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2014

	Enterprise Funds				
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total
Operating receipts:					
Charges for service	\$ 679,401	171,961	92,519	6,637	950,518
Operating disbursements:					
Business type activities	<u>613,166</u>	<u>78,782</u>	<u>70,616</u>	<u>9,120</u>	<u>771,684</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	66,235	93,179	21,903	(2,483)	178,834
Non-operating receipts (disbursements):					
Interest on investments	1,120	47	104	-	1,271
Miscellaneous	3,575	764	3,878	3,500	11,717
Debt service	<u>-</u>	<u>(81,709)</u>	<u>-</u>	<u>-</u>	<u>(81,709)</u>
Total non-operating receipts (disbursements)	<u>4,695</u>	<u>(80,898)</u>	<u>3,982</u>	<u>3,500</u>	<u>(68,721)</u>
Excess (deficiency) of receipts over (under) disbursements	70,930	12,281	25,885	1,017	110,113
Other financing sources (uses)					
Operating transfers in	39	4,421	-	-	4,460
Operating transfers out	<u>(14,694)</u>	<u>-</u>	<u>(39)</u>	<u>-</u>	<u>(14,733)</u>
	<u>(14,655)</u>	<u>4,421</u>	<u>(39)</u>	<u>-</u>	<u>(10,273)</u>
Net change in cash balances	56,275	16,702	25,846	1,017	99,840
Cash balances beginning of year	<u>741,710</u>	<u>101,156</u>	<u>125,840</u>	<u>14,364</u>	<u>983,070</u>
Cash balances end of year	<u>\$ 797,985</u>	<u>117,858</u>	<u>151,686</u>	<u>15,381</u>	<u>1,082,910</u>
Cash Basis Fund Balances					
Restricted for debt service	\$ -	13,130	-	-	13,130
Unrestricted	<u>797,985</u>	<u>104,728</u>	<u>151,686</u>	<u>15,381</u>	<u>1,069,780</u>
Total cash basis fund balances	<u>\$ 797,985</u>	<u>117,858</u>	<u>151,686</u>	<u>15,381</u>	<u>1,082,910</u>

See notes to financial statements

City of Stanton

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies

The City of Stanton is a political subdivision of the State of Iowa located in Montgomery County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides electric, water, sewer and landfill utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Stanton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Montgomery County Assessor's Conference Board, Montgomery County Landfill Association, and Montgomery County Emergency Management Commission.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of cash balances that do not meet the definition of the preceding category. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for receipts from tax authorized by referendum and used for community betterment projects.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through proprietary funds.

The City reports the following major proprietary funds:

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric utility.

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Stanton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2012, to compute the amounts which became liens on property on July 1, 2013. These taxes were due and payable in two installments on September 30, 2013 and March 31, 2014, at the Montgomery County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$1,179,515.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No. 40.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	Revenue Notes	
	Principal	Interest
2015	57,000	23,453
2016	60,000	22,041
2017	62,000	20,555
2018	64,000	19,020
2019	66,000	17,438
2020-2024	239,000	64,848
2025-2029	246,000	30,690
2030	54,000	1,620
Total	\$ 848,000	199,665

The City has a legal debt limit of approximately \$1,200,000, which was not exceeded during the year ended June 30, 2014.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (3) Bonds and Notes Payable - Continued

Revenue Notes

The city has pledged future water customer receipts, net of specified operating disbursements, to repay \$420,000 of water revenue notes issued in May 2000, and \$860,000 of water revenue notes issued in August 2010. Proceeds from the notes provided financing for the construction of water main extensions. The notes are payable solely from water customer net receipts and are payable through 2030. Annual principal and interest payments on the notes are expected to require less than 90% of the net receipts. The total principal and interest remaining to be paid on the notes is \$1,047,645. For the current year, the total principal and interest paid and total customer net receipts were \$79,815 and \$93,179, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water revenue note sinking accounts within the Water Enterprise Fund for the purpose of making the note principal and interest payments when due.

The City has complied with the above provisions.

Loan Agreement

The City has a loan agreement with the local telephone company with no interest rate. The loan was used to help finance construction of a community facility and matures as follows:

Year Ending June 30,	Principal
2015	36,000
2016	36,000
2017	36,000
2018	36,000
2019	36,000
2020-2024	180,000
Total	\$ 360,000

NOTE (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (4) Pension and Retirement Benefits - Continued

Plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2014 was \$12,284, equal to the required contribution for the year.

NOTE (5) Other Postemployment Benefits (OPEB)

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan members is \$409 for single coverage and \$1,033 for family coverage. The same monthly premiums apply to retirees. The City made no contributions for retired plan members eligible for benefits.

NOTE (6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2014, primarily relating to the General Fund was \$3,626. This liability has been computed based on rates of pay in effect at June 30, 2014.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Proprietary: Electric	\$ 10,273
Capital Projects	Special Revenue: Jobs	78,962
Proprietary: Water	Proprietary: Electric	4,421
Proprietary: Electric	Proprietary: Sewer	39
		<u>\$ 93,695</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE (8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (9) Construction Contracts and Commitments

The City has the following total contract commitments on a water improvement project that were not complete as of June 30, 2014:

<u>Estimated Total of Contracts</u>	<u>Paid to 06/30/14</u>	<u>Remaining Commitments</u>	<u>Retainages Payable</u>
\$ 1,194,370	113,353	1,081,017	-

In October 2012, the City was awarded a CDBG grant for \$300,000 for the project.

In June 2014, the City closed on a \$1,350,000 water revenue capital loan through the Iowa Drinking Water Facilities Financing Program. The loan proceeds are available for drawdown to fund the water project.

City of Stanton
Notes to Financial Statements
June 30, 2014

NOTE (10) Deficit Fund Balances

The Capital Projects Fund had a deficit balance of \$192,084 at June 30, 2014. The deficit was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of project funding.

NOTE (11) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

City of Stanton
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts						
Property tax	\$ 152,836	-	152,836	152,402	152,402	434
Other city tax	58,982	-	58,982	57,038	57,038	1,944
Licenses and permits	217	-	217	177	177	40
Use of money and property	163	1,271	1,434	1,500	1,500	(66)
Intergovernmental	1,697,850	-	1,697,850	2,850,557	3,073,557	(1,375,707)
Charges for service	4,068	950,518	954,586	944,426	944,426	10,160
Miscellaneous	1,032,322	11,717	1,044,039	15,000	15,000	1,029,039
Total receipts	2,946,438	963,506	3,909,944	4,021,100	4,244,100	(334,156)
Disbursements						
Public safety	42,217	-	42,217	49,506	49,506	7,289
Public works	192,407	-	192,407	206,648	206,648	14,241
Culture and recreation	87,731	-	87,731	87,736	87,736	5
Community and economic development	1,000	-	1,000	6,000	6,000	5,000
General government	64,786	-	64,786	66,106	66,106	1,320
Capital projects	2,949,356	-	2,949,356	2,855,822	3,000,822	51,466
Business type activities	124,465	853,393	977,858	954,335	1,032,335	54,477
Total disbursements	3,461,962	853,393	4,315,355	4,226,153	4,449,153	133,798
Excess (deficiency) of receipts over (under) disbursements	(515,524)	110,113	(405,411)	(205,053)	(205,053)	(200,358)
Other financing sources, net:	370,273	(10,273)	360,000	-	-	360,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(145,251)	99,840	(45,411)	(205,053)	(205,053)	159,642
Balances beginning of year	241,856	983,070	1,224,926	1,368,254	1,368,254	(143,328)
Balances end of year	\$ 96,605	1,082,910	1,179,515	1,163,201	1,163,201	16,314

See accompanying independent auditors' report

City of Stanton
Notes to Other Information – Budgetary Reporting
June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$223,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

Supplementary Information

City of Stanton
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2014

	Special Revenue			Total
	Employee Benefits	I Jobs	Urban Renewal Tax Increment	
Receipts				
Property tax	\$ 27,883	-	-	27,883
Total receipts	27,883	-	-	27,883
Disbursements:				
Operating:				
Public safety	2,669	-	-	2,669
Public works	21,233	-	-	21,233
Culture and recreation	2,385	-	-	2,385
General government	2,433	-	-	2,433
Total disbursements	28,720	-	-	28,720
Excess (deficiency) of receipts over (under) disbursements	(837)	-	-	(837)
Other financing uses:				
Operating transfers out	-	(78,962)	-	(78,962)
Net change in cash balances	(837)	(78,962)	-	(79,799)
Cash balances beginning of year	5,053	78,962	12,336	96,351
Cash balances end of year	\$ 4,216	-	12,336	16,552
Cash Basis Fund Balances				
Restricted for other purposes	\$ 4,216	-	12,336	16,552

See accompanying independent auditors' report

City of Stanton
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Enterprise Funds
Year ended June 30, 2014

	<u>Landfill</u>	<u>Deposits</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 6,637	-	6,637
Operating disbursements:			
Business type activities	<u>6,600</u>	<u>2,520</u>	<u>9,120</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	37	(2,520)	(2,483)
Non-operating receipts:			
Miscellaneous	<u>-</u>	<u>3,500</u>	<u>3,500</u>
Net change in cash balances	37	980	1,017
Cash balances beginning of year	<u>(11)</u>	<u>14,375</u>	<u>14,364</u>
Cash balances end of year	\$ <u>26</u>	<u>15,355</u>	<u>15,381</u>
Cash Basis Fund Balances			
Unrestricted	\$ <u>26</u>	<u>15,355</u>	<u>15,381</u>

See accompanying independent auditors' report

City of Stanton
Schedule of Indebtedness
June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Water	May 16, 2000	1.75% \$	420,000	\$ 182,000	-	23,000	159,000	3,185	-
Water	Aug 4, 2010	3.00%	860,000	721,000	-	32,000	689,000	21,630	-
Total				\$ 903,000	-	55,000	848,000	24,815	-
Loan agreement	Nov 25, 2013	0.00%	360,000	\$ -	360,000	-	360,000	-	-

See accompanying independent auditors' report

Schedule 4

City of Stanton
Bond and Note Maturities
June 30, 2014

Year Ending June 30,	Revenue Notes					Loan Agreement	
	Water		Water		Total	Viking Center	
	Issued May 16, 2000		Issued Aug 4, 2010			Issued Nov 25, 2013	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2015	1.75%	\$ 24,000	3.00%	\$ 33,000	\$ 57,000	0%	\$ 36,000
2016	1.75%	25,000	3.00%	35,000	60,000	0%	36,000
2017	-	26,000	3.00%	36,000	62,000	0%	36,000
2019	-	27,000	3.00%	37,000	64,000	0%	36,000
2019	-	28,000	3.00%	38,000	66,000	0%	36,000
2020	-	29,000	3.00%	39,000	68,000	0%	36,000
2021	-	-	3.00%	41,000	41,000	0%	36,000
2022	-	-	3.00%	42,000	42,000	0%	36,000
2023	-	-	3.00%	43,000	43,000	0%	36,000
2024	-	-	3.00%	45,000	45,000	0%	36,000
2025	-	-	3.00%	46,000	46,000	-	-
2026	-	-	3.00%	48,000	48,000	-	-
2027	-	-	3.00%	49,000	49,000	-	-
2028	-	-	3.00%	51,000	51,000	-	-
2029	-	-	3.00%	52,000	52,000	-	-
2030	-	-	3.00%	54,000	54,000	-	-
		\$ 159,000		\$ 689,000	\$ 848,000		\$ 360,000

See accompanying independent auditors' report

Schedule 5

City of Stanton
Schedule of Expenditures of Federal Awards
June 30, 2014

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development: Community Development Block Grants/ State's Program	14.228	08-DRPG-245	\$ 7,500
Iowa Department of Economic Development: Community Development Block Grants/ Water/Sewer Program	14.228	13-WS-024	124,465
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Grant	97.039	DR-1763-69-01	<u>435,463</u>
Total			\$ <u><u>567,428</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Stanton. The City of Stanton's financial statements are presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report

City of Stanton



Diane McGrain, CPA
Jim Menard, CPA

September 19, 2014

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stanton, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 19, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Stanton's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Stanton's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Stanton's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

Continued...

City of Stanton
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Stanton's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-14 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stanton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Stanton's Responses to Findings

City of Stanton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Stanton's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Stanton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, PC.

**Independent Auditors' Report on Compliance
for Its Major Program and on Internal Control over Compliance
Required by OMB Circular A-133**



Diane McGrain, CPA
Jim Menard, CPA

September 19, 2014

Independent Auditors' Report on Compliance
for Its Major Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Its Major Federal Program

We have audited City of Stanton's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Stanton's major federal program for the year ended June 30, 2014. City of Stanton's major federal program is identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for City of Stanton's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Stanton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of City of Stanton's compliance.

Continued...

City of Stanton
Independent Auditors' Report on Compliance
for Its Major Federal Program

Opinion on Its Major Federal Program

In our opinion, City of Stanton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of City of Stanton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Stanton's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Stanton's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirements of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item II-A-14 to be a material weakness.

The City of Stanton's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings. The City of Stanton's response was not subjected to the auditing procedures applied in the audit of compliance and, according, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schroer & Associates, P.C.

**City of Stanton
Schedule of Findings
June 30, 2014**

Part I: Summary of the Independent Auditors' Results:

- a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.
- d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) The major program was CFDA Number 97.039 – Hazard Mitigation Grant.
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) City of Stanton did not qualify as a low-risk auditee.

**City of Stanton
Schedule of Findings
June 30, 2014**

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person has control over each of the following areas for the City:

- (1) Receipts – billing, posting and reconciling
- (2) Disbursements – warrant writing, posting and reconciling
- (3) Payroll – preparing and distributing

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We have reviewed procedures and have implemented an independent review of the bank statement by a City official.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**City of Stanton
Schedule of Findings
June 30, 2014**

Part III: Findings for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

**CFDA Number 97.039: Hazard Mitigation Grant
Pass-through Agency Number DR-1763-69-01
Federal Award Year: 2014
Department of Homeland Security
Passes through the Iowa Department of Public Defense**

III-A-14 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-14.

**City of Stanton
Schedule of Findings
June 30, 2014**

Part IV: Other Findings Related to Statutory Reporting:

IV-A-14 Certified Budget

City disbursements during the year ended June 30, 2014, did not exceed the amended budgeted amounts.

IV-B-14 Entertainment Expense

We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-14 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-14 Business Transactions

No business transactions were noted between the City and City officials or employees.

IV-E-14 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-14 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-14 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-H-14 Revenue Notes

The City is in compliance with the provisions of the revenue debt resolutions.

IV-I-14 Financial Condition

Comment – The Capital Projects Fund had a deficit balance of \$192,084 at June 30, 2014.

Recommendation – The City should monitor activity in this fund in order to eliminate the deficit balance.

Response – The deficit was due to construction costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of project funding.

Conclusion – Response accepted.

**City of Stanton
Schedule of Findings
June 30, 2014**

Part IV: Other Findings Related to Statutory Reporting - Continued:

IV-J-14 Excess Balances

Comment – The cash balances in the Special Revenue Fund, Road Use Account, Local Option Sales Tax Account, and the Proprietary Funds, Electric and Sewer Accounts at June 30, 2014 were in excess of the disbursements made from each of the accounts during the year.

Recommendation – The City should consider the necessity of maintaining the excess balance, and where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – We are planning on using the Road Use and Local Option Sales Tax monies for capital projects. We are maintaining balances in the other funds as reserves for the future. We will review this further.

Conclusion – Response accepted.

IV-K-14 Tax Increment Financing (TIF)

Comment – The City has a balance of \$12,337 in a TIF fund that is no longer active.

Recommendation – The City should consult TIF legal counsel to determine the allowed use of this money or the repayment to the County Auditor.

Response – We will do this.

Conclusion – Response accepted.